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Spain

Food Processing Ingredients Sector

Report

2003

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Report Highlights:

Spain's food processing industry is the fifth largest in the European Union. The industry is continuously investing more money to comply with all EU regulations and to maintain its position. The consumers demand more value-added as well as more convenient and healthier products. There are some opportunities for U.S. suppliers to sell both raw materials and ingredients in this market.

Includes PSD Changes: No
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Annual Report
Madrid [SP1]
[SP]

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I. Market Summary

Spain is among the ten largest economies in the world. Its GDP grew about 2.1 percent in 2002, and according to recent OECD data, should grow by 2.2 percent in 2003, and by 2.6 percent in 2004. (This compares with the average GDP growth in the EURO area of 0.5 percent in 2003 and 1.9 in 2004.) Spain's economic growth has permitted a further drop in unemployment, which has been declining for several years; however, its current level of 11.7 percent is still higher than in most other EU countries. Inflation has been relatively low, reaching 4 percent in 2002; economic forecasters expect it will be about 3 percent for 2003. Per capita annual income in 2002 was estimated at about 16,586 euros (purchasing power parity basis is \$US 18,000).

Higher labor force participation, particularly by women and a change in the composition of the "traditional" family, are having a large impact on food purchasing patterns. While individuals' purchasing power is growing, the time available to buy and prepare foods is being reduced. Consumers are increasingly able, and willing, to buy foods which require little preparation time.

Spain's population is nearly 41 million. Like much of the rest of Europe, the country's demographics have been affected by decades of lower birth rates. In 2001, for the third consecutive year, and after 25 years of continuous decreases, the birth rate increased due primarily to its immigrant population. Family size has been shrinking: the "normal" family is comprised of at most four people, with two members of the family working. The number of one-person households is also increasing. Currently there are three million people living alone, triple the number 20 years ago, which reflects the growing number of "seniors" living alone. The strong growth of one-person and two-person households (which now make up a third of all households) is affecting food consumption patterns since those two groups tend to spend more on a per-capita basis for food purchases.

More congested metropolitan areas, and an increasing number of women in the work force have altered the traditional habit of daily trips to the market. The traditional extended mid-afternoon lunch (the principal meal for most Spanish families) is becoming less common in the large urban areas. About 69 percent of Spaniards now live in cities, while the balance live in rural areas. Consumption patterns are also highly dependent on geographical area. For instance, the highest meat consumption occurs in Castilla-Leon (Center), while the Canary Islands has the lowest.

Virtually all of Spain's households have refrigerators. The incidence microwave ovens has increased rapidly in the last decade; they are now found in 65 percent of homes. The availability of microwaves has further enhanced the demand for processed and ready-to-eat products.

The increasing number of Spaniards who travel abroad bring back new tastes, thus increasing the demand for new products and for ethnic foods and restaurants. The millions of foreign tourists who flood into the country each year also want some familiar food and beverages. Food product demand is also changing due to the growing immigrant population.

Area & Population (2001)

Total Area (million Ha.)	50.6	Total Population (million)	40.8
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Employment (5/2003)

Total Labor Force (million)	18.6
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Employed (million)	16.4
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Unemployed (%)	11.7
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Growth

GDP (\$U.S. billion) (Q1 2003)	763.7
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GDP Growth (2002)	2.0
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Per Capita GDP on purchasing power parity basis in \$US	18,000
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Per Capita GDP in Euros	17,060
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CPI (2003 estimate)	3.0*
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* Government estimate. OECD estimates a GDP of 2.5%

The Spanish food processing industry is the fifth largest in the European Union (EU). Domestically, it is the principal industrial group, generating 20 percent of Spain's total industrial production, consuming 70 percent of agricultural production and employing 13.4 percent of the industry and 2.9 percent of the labor force (around 376,000 jobs). Raw materials, which account for 58 percent of total production costs, are sourced mainly from Spain and other European countries. However, weather problems or changes in EU production policy can reduce supply availability in Europe and favor imports from third countries. The continuing decline of fish supplies in Spanish and EU waters encourages imports of supplies from outside the area.

Especially since Spain joined the EU in 1986, the food processing industry has been investing large sums in the factories and in the primary industry to improve productivity and quality in order to compete in the European market. Large international companies now control about 25 to 30 percent of the volume of business. The high standards needed to compete in the EU market have caused a relentless pursuit of tighter quality controls. Larger companies have been able to spread the cost of quality controls over large production runs. Many smaller companies have difficulties in keeping up, due to the relatively higher costs to implement these measures.

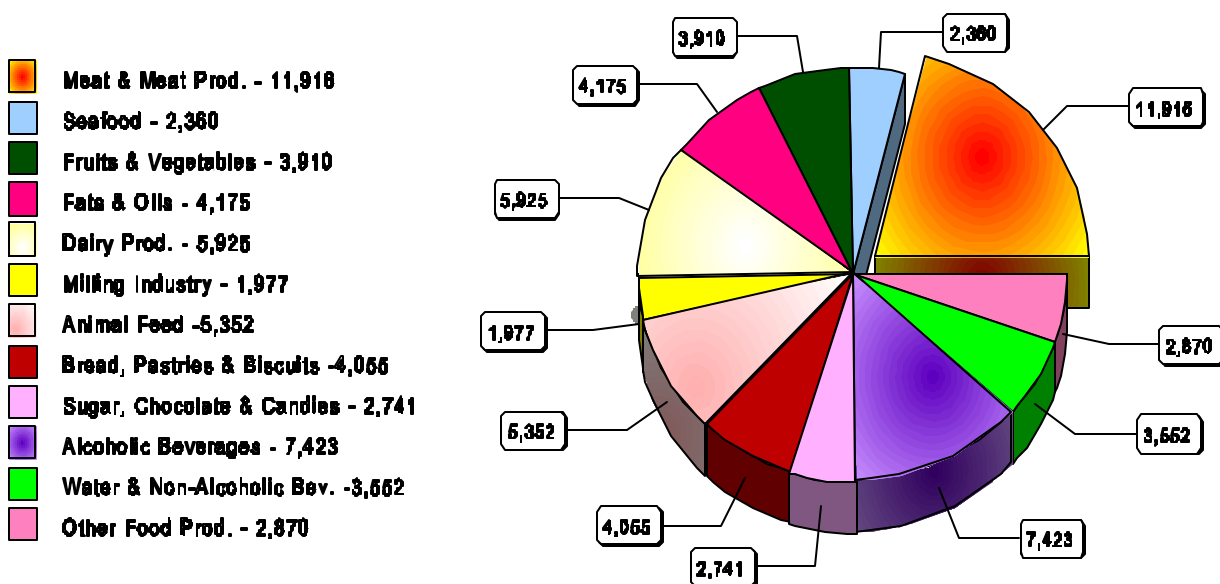
In 2002 there were 33,747 food-processing companies in Spain, this is 1.6 percent more than in 2001. Most of these companies are small or medium size (99.26 percent have less than 200 employees), 0.56 percent are medium sized (200 to 499 employees), and only 0.18 percent are large (more than 500 employees). Nevertheless the trend during the last few years has been toward further concentration in both the food processing and distribution industries.

Advantages and Challenges for U.S. Suppliers to the Spanish Market

Advantages	Challenges
There are some niche markets, example: Ethnic food products	High promotion costs to introduce new products
High quality of U.S. products	Certain products have to pay high customs duties to enter EU countries.
Increase of imports of U.S. seafood products and value-added products.	U.S. food products have to comply with EU labeling and packaging
Increasing demand of American style food products in fast food and "theme" restaurants	High shipping costs from the U.S.
Growing demand of organic, low-fat and sugarless products.	Reluctance to use products containing genetically modified ingredients

Food Industry Production by Sector - 2001

(,000 Euros)



II. Road Map for Entry Strategy

A. Market Strategy

The Spanish market is a series of regional markets. Madrid and Barcelona are the main markets and the headquarters for the majority of agents, distributors, importers and government-controlled buying agencies. A U.S. exporter new to the market would be well advised to appoint an agent or distributor or to establish a subsidiary. A local representative would be aware of the different consumption attitudes and preferences in each of Spain's 17 autonomous regions.

B. Market Structure

Total food production by the food processing industry in 2002 was valued at 58.5 billion Euros, an increase of 4.1 percent in value, and a three percent in volume. Spanish consumers spent 66 billion Euros on food, an increase of 1.9 in volume and 7.8 in value. (The difference between production and consumption can be explained by the fact that not all fresh fruits and vegetables are processed and that imports and exports of processed foods are also taken into account.) In 2002, total exports of processed food products were 11.9 billion Euros, this is a 2.4 percent increase, while imports were 14 billion Euros, four percent higher than a year earlier.

While the value of food consumed has been rising, the volume has been more stable. The increase in price for less product reflects "value added" by the processing industry. Diet and "functional" foods as well as convenience of preparation have all contributed to this trend; the change from the peseta to the Euro was also another factor to the price increase in many products, due to the "rounding" of prices. About three-quarters of food is consumed at home and the rest, via HRI. However, the share for the HRI sector has been growing steadily. According to the Ministry of Agriculture, in 2002, consumption of fruits, olive oil, seafood, meat, quality wine, and ready-to-eat food increased, while dairy products, pulses, eggs, vegetables and potatoes declined. Total grocery sales in 2002 through food distribution chains or groups were 44.8 billion Euros, a 7.9 percent increase from the previous year. Another 16.5 billion Euros, or about 27 percent of total food expenses took place through the HRI sector, a ten percent jump from 2001.

There were 36,361 smaller, traditional outlets selling food in 2001. While the expansion in the number of large supermarkets and hypermarkets has begun to slow, the number of medium-sized supermarkets and discount outlets is accelerating.

The top five food distribution groups hold more than half of total sales and the consolidation of the industry will likely increase their market share in the future. Recent mergers include Promodes and Carrefour, which became Grupo Carrefour at the end of the last decade, with a combined market share of 22 percent of total retail grocery sales. In addition, larger groups have bought several small supermarkets, and Caprabo, a Spanish company, is expanding in an attempt to compete with the Carrefour group. Furthermore, smaller grocery retail chains continue to be taken over by larger companies. Currently, there are only two large groups: Euromadi Iberica and IFA Española.

The consolidation of the industry has caused fierce competition, lower prices, and narrower profit margins. It is also driving down raw materials prices. Food producers say that the growing purchasing power of the big food distribution groups allows them to demand lower prices from farmers.

Main Food Industry Sectors

Meat & Products

Spain's meat processing industry is the fourth largest in the EU, with a production capacity of 7 million tons/year. The industry is also one of the country's leading food processing sectors. In 2002, meat products accounted for 22 percent of total food expenses in Spain. This industry has been continuously expanding for the past half century, from only 9 refrigerated slaughterhouses in 1954, compared to 1,534 in 2001. This sector is also widely dispersed, with many small and medium sized companies.

Pork represents 60 percent of the meat processed in Spain, more than 3 million tons, followed by poultry meat (1 million tons), beef (650,000 tons) and lamb (235,000 tons). Average meat consumption in 2002 was 68 Kg per capita.

Dairy Products

Although milk production is located throughout Spain, the highest concentration is in the region of Asturias, a high-rainfall area well suited to pastures. Sales of the companies located in that area represent about 54 percent of the sector's total sales. During the past few years there has been a high concentration in the liquid milk sector. Per capita consumption of liquid milk is estimated at 111.5 liters. About 86 percent of total milk is consumed at home.

Consumption of dairy products increases every year. The industry offers a wide variety of yogurts and desserts. Per capita consumption is about 35.2 Kg.

Spanish production of **cheese** is estimated at 300,000 tons. The top three groups of the sector hold 32 percent of the market. Per capita consumption of cheese is 7.2 Kg.; 87% is consumed at home and is purchased primarily at supermarkets (50%) and hypermarkets (23%). Distributors are the main suppliers to the HRI Sector.

Fats & Oils

Spain is the world's largest producer of olive oil. Total olive oil production in 2002 was more than 1.4 billion liters. Per capita consumption of fats and oils is about 21 liters, of which 61% is olive oil, 32% sunflower oil, and the remainder, other oilseeds. Most of the olive oil is consumed at home (83.4%), followed by hotels and restaurants (14.4%) and institutions (2.2%).

Canned Fruits & Vegetables

Total annual production of canned fruits and vegetables is around 1.3 million tons. Tomato is the most popular canned product, accounting for 41% of total volume, followed by processed fruits (35%), processed vegetables (21%) and jams and marmalades (3%). Total consumption is estimated at 707,000 tons; the remaining production is exported. Per-capita consumption is around 17.4 Kg.

Canned Seafood

The canned seafood sector is also consolidating. The top eleven manufacturers control around 70 percent of the market. Currently there are 133 plants; some 80 percent are in Galicia, the region in the northwest of Spain where fishing remains stable. Total production is about 250,000 tons.

Tuna is the main product processed, accounting for 55 percent of total output. Other important species include sardines, octopus and squid, mackerel and mussels

Per capita consumption is about four kilos, and is mainly consumed at home (81 percent); the HRI sector takes most of the rest. The favorite canned seafood product is tuna fish (48.9%), followed by cockles (8.9%), mussels (8.6%), anchovies and sardines (8.4% each).

Wine, Beer and Alcoholic Beverages

Spain is the third largest wine producer in the world. The wine sector represents 11.3 percent of output of the total food processing industry. The sector is very dispersed, with some 3,830 companies in the **wine** business. Per capita consumption, at 29.6 liters, has been falling for decades. Spain is unusual in that more wine is consumed in the HRI channel (53.3 percent) than at home (45.3 percent).

In contrast, the **beer** sector is highly concentrated: there are only 22 factories, which in 2002, produced 2.78 billion liters, 0.4% more than in 2001. Spain is the number three beer producer in the EU (after Germany and the United Kingdom) and number nine in the world. Much of the inputs for beer are produced domestically, including hops (1,400 tons per year) and malt (400,000 tons).

Total consumption in 2002 reached 2.19 billion liters. Average per capita consumption was 73.4 liters (compared to the EU average of 78.3 liters). Consumption decreased by 1.3 percent due to lower temperatures and a decrease in the number of tourists. Consumption is higher in Southern Spain and the Canary Islands, where there are more tourists and higher temperatures. For example, per capita consumption in the region of Andalucia, a tourist hot spot, is as high as 82.4 liters. Two-thirds of consumption occurs through the HRI sector; the remaining third, at home.

Spain is a substantial net importer of beer, totaling around 264 million liters in 2002. Imports have been increasing since 1996, when only 180 million liters were imported, nevertheless in 2002, there was a decrease of 32 percent, probably due to a decrease in beer consumption. The main suppliers are Germany (63%), the Netherlands (20%) and Mexico (5%). Unlike domestic beer, most imports are sold in the retail food sector directly to consumers.

Spain has the highest per capita **non-alcoholic beer** consumption in the EU, a sobering 5 liters. Production reached 207 million liters in 2002, an increase of 3.9 percent from a year earlier. Consumption of low alcohol beer, while still fairly small, is also increasing rapidly.

Total consumption of **spirits** reached 181.2 million liters in 2002, this is a decrease of 10.3 percent from the previous year. Whisky accounts for 40 percent, followed by brandy (18.7%), cordials (15.2%), gin (15.1%). Per capita consumption of spirits is about 4.7 liters, of which 3.4 liters are consumed in the HRI sector. There is also a high concentration in this sector, as well as a strong penetration of multinational groups.

Within the whiskeys, bourbon (a term Spaniards use to describe most American whiskies) represents only 3 percent, or about 2.3 million liters. However, consumption has been increasing steadily.

Water and non-Alcoholic Beverages

There has been a continuous growth of **bottled water** consumption in the last decade. Total consumption was 2.57 billion liters, or 7.2 percent more than in 2001. Still water accounts for 98% of the market. Spain is the fourth largest producer of bottled water in the EU, with an output of 4.51 billion liters in 2002. While there are around 100 bottled water companies in Spain, the top 10 companies account for 48 percent of total sales.

About 74.3% of bottled water is consumed at home; purchases are made at supermarkets (54.1%), hypermarkets (22.7%) and convenience stores (19%). The HRI sector purchases water through distributors (86%), wholesalers (7.5%) and cash & carries (2.2%).

Spain's production of **soft drinks** totaled 4.28 billion liters in 2002, the third largest in the EU. Cola drinks account for 57.8% of total production, followed by orange (15.7%), lemon (9.5%), soda (9.7%), lemon-lime (3.6%), tonic (2.3%) and the remaining flavors (1.4%). Consumption is about 93 liters per person; 60 percent is consumed at home and 40 percent in the HRI sector. There is a high concentration in this sector, with the leading group controlling 57 percent of the market.

According to trade organizations, production of **juices** totaled 1,077 million liters in 2002, a 6.8 percent increase from 2001. Consumption of juices and nectars is 700 million liters. The sector has been working to attract more health conscious consumers by offering enriched or prepared product lines, without sugar. About 85 percent of juices are manufactured from concentrates.

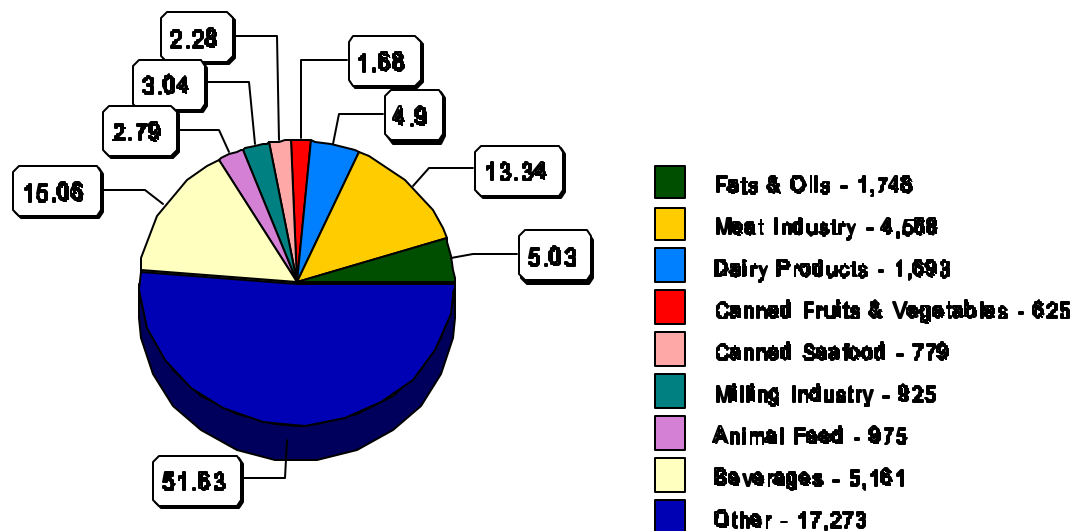
There is also a high concentration in this sector: the top ten producers manufacture 71 percent of total juices; the top three hold a market share of 38 percent.

Juices are mainly consumed at home, with about 26 percent consumed in the HRI sector.

C. Company Profiles

There were 33,747 food processing plants in 2002, about 540 more than in 2001. Of these, 32,608 (or 96.6 percent) are small companies (less than 50 workers), among them 27,954 have less than 10 workers. 889 companies (2.6%) are medium size companies (50/200 workers); 188 companies (0.56%) have between 200 and 500 workers, while the remaining 62 companies (0.18%) are considered large companies with more than 500 workers.

Food Processing Industries



Source: Federacion de Industrias de Alimentacion y Bebidas - FIAB

Fresh products, including seafood and fruits and vegetables, are distributed through a network of 22 public wholesale markets located throughout the country. About three quarters of total food is consumed at home, while the remaining quarter is consumed through the HRI sector.

About half of total fresh products, such as fruit, vegetables, meat and seafood, are sold

through traditional stores; however, supermarkets and hypermarkets are steadily increasing their market share of these products.

Purchases of grocery products are managed directly by each distribution group. Processed products are mainly sold through supermarkets (58.7%), hypermarkets (28%) and traditional outlets (13.3%). The largest share of beverages is sold by the HRI sector.

Main Companies Operating in the Food Processing Industry - Spain

Company & Prod. Types	Sales in 2000 M. Euros	End-Use Channels	Procurement Channels
C. Servicios de Bebidas Refrescantes - Coca-Cola	1,803	Retail & HRI	Direct
Azucarera Ebro Agrícolas Processed Foods in general	1,724	Retail & HRI	Importers, Direct
NESTLE España, S.A, Processed Foods in general	1,512	Retail & HRI	Importers, Direct
Campofrío Alimentación, S.A. - Meat Products	1,271	Retail & HRI	Importers, Direct
Danone, S.A. - Dairy Products	808	Retail & HRI	Importers, Direct
Corporación Agrolimen - Holding	771	Retail & HRI	Importers, Direct
Heineken España, S.A. - Beer	740	Retail & HRI	Importers, Direct
PESCANOVA, S.A. - Frozen Products	721	Retail & HRI	Importers, Direct
Leche Pascual, S.A. Dairy, breakfast cereal, juices	671	Retail & HRI	Importers, Direct
Guinness UDV España, S.A. - Beer	651	Retail & HRI	Importers, Direct
Pedro Domecq, S.A. - Alcoholic Beverages	608	Retail & HRI	Importers, Direct
MAHOU, S.A. - Beer	601	Retail & HRI	Importers, Direct
Coop. Orensanas – COREN - Meat Products	607	Retail & HRI	Importers, Direct
Corp. Alimentaria Peñasanta, S.A. - Dairy Products	550	Retail & HRI	Importers, Direct
Cargill España, S.A. - Fats & Oils	548	Retail & HRI	Importers, Direct
Unilever Foods España, S.A. Ice Cream - Frozen Products	512	Retail & HRI	Importers, Direct
PULEVA, S.A. - Dairy Products	512	Retail & HRI	Importers, Direct
Koipe, S.A. - Fats & Oils	480	Retail & HRI	Importers, Direct

D. Sector Trends

Even before Spain's accession into the EU, many foreign food companies were buying or doing joint ventures with Spanish food processing companies. This trend continues. Companies totally or partially foreign-owned account for 25 to 30 percent of total food sales. The penetration is even greater in the beverage sector, where foreign companies generated about 45 percent of total sales.

The total value of Spanish trade in agricultural products was virtually unchanged in 2002. Although exports of processed food products are slightly larger (16 percent) than imports, in the past the opposite was true. The trend was reversed due to substantial investment, both public and private, in the Spanish food processing industry. Imports from the United States have been dampened for the past several years by the strong U.S. dollar. Nevertheless with the dollar's fall against the euro, U.S. products are more price competitive.

The growing number of ethnic restaurants cropping up in Spain should also help U.S. exporters. Tex-Mex and Asian cuisine products could get a major boost from this development.

III. Competition

Spain is a large producer of agricultural products. Harvesting and handling of raw materials is constantly improving. While production of processed food is based on the availability of raw materials, most of the inputs used by the food industry are of Spanish or EU origin.

Total Spain's food products imports in 2002 were \$15 billion, 3.5 percent higher than in 2001, while exports of the same products were \$17.4 billion, with an increase of only 2.7 percent. The main suppliers are France, Germany and Italy; the United States is usually among the top ten suppliers. Total U.S. exports to Spain in 2002 were \$898 million and \$1.1 billion including all agricultural products.

IV. Best Products Prospects

A. Products present in the market which have good sales potential are as follows:

- Seafood in general, especially lobster, surimi, monkfish, whiting, hake, squid and salmon
- Tree nuts: almonds and walnuts
- Ethnic products and seasonings
- Bourbon and other American whiskey varieties
- Ready-to-eat products
- Snacks
- Low-cholesterol, sugar-free products

B. Products not present in significant quantities but which have good sales potential are as follows:

- Fresh fruit: pink grapefruit, mangoes
- Ingredients to prepare fruit & vegetable juices
- Ingredients to prepare extruded snacks

Premium beer

C. Products that are not present because they face significant barriers:

All poultry and red meat products.

V. Post Contact and Further Information

U.S. Address:

American Embassy Madrid
Foreign Agricultural Service
PCS 61 - (Box 20)
APO AE 09642

International Address:

American Embassy Madrid
Foreign Agricultural Service
Serrano, 75
28006 Madrid - SPAIN

Phone: 34 91 411 8931

Fax: 34 91 564 9644

e-mail: AgMadrid@fas.usda.gov

For further information check the "Agricultural Affairs" home page on the U.S. Embassy Madrid web site: www.embusa.es

Spain's Federation of Food and Beverage Producers has links with many member associations: www.fiab.es

Ministerio de Agricultura, Pesca y Alimentación
(Spanish Department of Agriculture)
Paseo de la Infanta Isabel, 1
28014 Madrid

Phone: 34 91 347 5000

<http://www.mapya.es>

Ministerio de Economía y Hacienda
(Department of Economy)
Paseo de la Castellana, 162
28071 Madrid

Tel: 34 91 583 7400

<http://www.mineco.es>

Instituto Nacional de Estadística
(Statistics)
Pº Castellana, 183
28071 Madrid

Tel: 91 583 91 00

e-mail: info@ine.es

<http://www.ine.es>

Ministerio de Sanidad y Consumo
(Department of Health and Consumption)
Paseo del Prado, 18
28071 Madrid

<http://www.msc.es>

MERCAMADRID
(Madrid wholesale market)
Ctra. Villaverde-Vallecas, km.3,800
28053 MADRID

Tel: 34 91 785 5013

e-mail: mercamadrid@ibm.net
<http://www.mercamadrid.es>

Ministerio de Medio Ambiente
(Department of Environment)
Plaza de San Juan de la Cruz, s/n
28003 Madrid

Tel: 34 91 597 6000

<http://www.mma.es>

Banco de España
(Bank of Spain)
Alcalá, 50
28014 Madrid

<http://www.bde.es>

NOTE: Average exchange rate: 2002: 1/\$0.94.
Current exchange rate: 1 Euro/\$1.13